Financial statements of

Toronto Port Authority

December 31, 2008

(in thousands of dollars)

Toronto Port Authority
December 31, 2008

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Auditors' Report

To the Board of the
Toronto Port Authority

We have audited the balance sheet of the Toronto Port Authority as at December 31, 2008 and the statements of revenue and expenses, comprehensive loss and equity, and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Toronto Port Authority as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 6, 2009

Toronto Port Authority

Balance sheet
as at December 31, 2008

(in thousands of dollars)

	2008	2007
	$	$
Assets		
Current		
Cash and cash equivalents	**6,372**	4,023
Short-term investments	**4,594**	3,259
Accounts receivable (Note 4)	**6,161**	5,986
City settlement payments receivable (Note 5)	**10,000**	7,000
Inventories	**66**	47
Prepaid expenses	**270**	274
	27,463	20,589
Mortgages receivable (Note 6)	**444**	574
Long-term investments (Note 6)	**717**	644
Capital assets (Note 7)	**46,615**	49,924
Deferred dredging expenditures (Note 8)	**-**	40
Deferred site preparation expenditures (Note 9)	**520**	89
Other assets (Note 10)	**6,812**	7,175
	82,571	79,035
Liabilities and equity		
Current		
Accounts payable and accrued liabilities	**5,496**	4,274
Fair value of the interest rate swap	**2,276**	409
Current portion of bank loan (Note 11)	**556**	538
Payment in lieu of taxes payable (Note 12)	**5,488**	3,443
Unearned revenue	**1,083**	955
	14,899	9,619
Bank loan (Note 11)	**13,497**	14,053
Deferred revenue (Note 13)	**611**	637
Deferred city capital payments (Notes 2 and 5)	**4,689**	4,931
Other liabilities (Note 10)	**1,513**	1,486
	35,209	30,726
Equity	**47,362**	48,309
	82,571	79,035

Approved by the Board

_________________ Director

_________________ Director

Toronto Port Authority

Statement of revenue and expenses
year ended December 31, 2008

(in thousands of dollars)

	2008	2007
	$	$
Revenue		
Port operations	**4,357**	6,083
Outer Harbour Marina	**2,506**	2,177
Toronto City Centre Airport (Note 14)	**11,020**	5,119
Property and other	**1,976**	1,699
Investment income	**450**	110
	20,309	15,188
Expenses		
Port operations	**4,234**	4,919
Outer Harbour Marina	**1,267**	1,222
Toronto City Centre Airport	**7,690**	6,478
Property and other	**842**	790
Corporate services	**3,413**	3,252
Charge on gross revenue	**612**	404
	18,058	17,065
Net income (loss) from operations before the following	**2,251**	(1,877)
Payments in respect of land disposition (Note 5)	**2,334**	2,859
Payments in lieu of taxes (Note 12)	**(2,045)**	(666)
Amortization of capital assets	**(1,677)**	(1,733)
Net income (loss)	**863**	(1,417)

Toronto Port Authority

Statement of comprehensive loss and equity
year ended December 31, 2008

(in thousands of dollars)

	2008	2007
	$	**$**
Other comprehensive income (loss)		
Unrealized gain on available for sale assets	**57**	190
(Loss) gain on derivative designated as cash flow hedge interest rate swap (Note 11)	**(1,867)**	131
	(1,810)	321
Net income (loss)	**863**	(1,417)
Comprehensive loss	**(947)**	(1,096)
Equity, beginning of year	**48,309**	49,405
Equity, end of year	**47,362**	48,309

Toronto Port Authority

Statement of cash flows
year ended December 31, 2008
(in thousands of dollars)

	2008	2007
	$	**$**
Operating activities		
Net income (loss)	**863**	(1,417)
Adjustments for non-cash items		
Amortization of capital assets	**1,677**	1,733
Other assets and other liabilities (Note 10)	**390**	514
Amortization of deferred revenue (Note 13)	**(26)**	(26)
Amortization of deferred dredging expenditures (Note 8)	**80**	80
	2,984	884
Net change in non-cash working capital balances related to operations	**3,120**	499
	6,104	1,383
Financing activities		
Bank loan (Note 11)	**-**	1,250
Bank loan principal payments	**(538)**	(409)
City settlement capital payments receivable	**(3,000)**	(3,000)
City funded capital applied	**3,242**	534
Deferred city funded capital payments	**(242)**	2,466
Airport Capital Assistance Program (ACAP) (Note 15)	**335**	-
Marine Security Contribution Program (MSCP) Funded capital (Note 16)	**(236)**	333
Other funded capital	**25**	-
	(414)	1,174
Investing activities		
Decrease in mortgage receivable	**130**	87
Purchase of long-term investments (Note 6)	**-**	503
Increase in short-term investments	**(1,335)**	(2,230)
Increase in deferred site preparation expenditures (Note 9)	**(431)**	(89)
Acquisition of capital assets	**(1,705)**	(2,119)
	(3,341)	(3,848)
Increase (decrease) in cash position	**2,349**	(1,291)
Cash and cash equivalents, beginning of year	**4,023**	5,314
Cash and cash equivalents, end of year	**6,372**	4,023
Cash and cash equivalents consists of:		
Cash	**1,151**	850
Cash equivalents	**5,221**	3,173
	6,372	4,023
Supplementary cash flow information		
Interest paid	**730**	811

(in thousands of dollars)

1. Canada Marine Act status

The Toronto Harbour Commissioners ("Commissioners") had status and operated under The Toronto Harbour Commissioners Act of 1911. Effective June 8, 1999, the Toronto Port Authority ("Port Authority") was incorporated under the Canada Marine Act.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Adoption of New Accounting Standards

On January 1, 2008, the Port Authority adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). Handbook Section 1535 "Capital Disclosures", Handbook Section 3862 "Financial Instruments - Disclosures, and Handbook Section 3863 "Financial Instruments - Presentation". These new sections have been applied prospectively.

The adoption of Section 1535 has not resulted in any change in how the Port Authority accounts for its transactions, but has required additional disclosure in the financial statements, which is presented in Note 22.

Sections 3862 and 3863 replaced Handbook Section 3861, "Financial Instruments - Disclosure and Presentation". These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the Port Authority manages those risks. These disclosures are included in Note 3.

The adoption of these standards did not have any impact on the measurement of the Port Authority's financial instruments.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with the bank and short-term investments which are readily convertible to cash and have original term to maturity of 90 days or less.

Financial Instruments

The Port Authority's financial assets and financial liabilities are classified and measured as follows:

Asset/liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Short-term investments	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
City settlement payments receivable	Loans and receivables	Amortized cost
Mortgages receivable	Loans and receivables	Amortized cost
Long-term investments	Available for sale	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Payment in lieu of taxes payable	Other financial liabilities	Amortized cost
Bank loan	Other financial liabilities	Amortized cost

2. Significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes all direct expenditures and other appropriate costs incurred in bringing the inventory to its present location and condition.

Capital assets

Lands held at December 31, 1974 are valued at appraised values as determined in 1967 except for lands which were under long-term leases or otherwise encumbered at that time. Land acquired since 1974 is recorded at cost.

All other capital assets are recorded at cost with a contra asset representing applicable government funding.

Amortization on buildings, structures, plant and equipment is provided on the straight-line basis over the estimated useful lives of the assets.

No amortization is provided on land and capital work-in-progress.

Settlement with City of Toronto (Note 5)

The operating amounts from the City of Toronto (the "City") related to the current year are recognized as received.

The Capital payments due from the City are recorded as deferred capital funding until used for the acquisition of capital assets at which time these are transferred to City Funded Capital Payments.

Employee future benefits

The Port Authority maintains a defined benefit (best five consecutive years' earnings average, up to December 31, 1999) pension plan for the benefit of most employees. The Port Authority also offers other non-pension post employment benefits to most employees, including a death benefit, early retirement benefits and self-funded workers' compensation benefits. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

The Port Authority has adopted the following policies for its defined benefit pension plans and other retirement benefits:

(i) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.

(ii) For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value.

2. Significant accounting policies (continued)

Employee future benefits (continued)

(iii) Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

(iv) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Derivative financial instrument and hedge accounting

The Port Authority uses an interest rate swap to reduce interest rate risk on its variable rate debt. The Port Authority does not enter into derivative financial instruments for trading or speculative purposes.

The swap used by the Port Authority (Note 11) has been formally designated as a hedge of specifically identified debt. The Port Authority believes that the swap is highly effective as a hedge of its exposure to interest rate risk and is eligible for hedge accounting.

The fair value of derivative instruments eligible for cash flow hedge accounting is recognized on the balance sheet. The effective portion of changes in fair value of the hedging derivative is recorded in other comprehensive income while the ineffective portion is recognized in other income. When the hedging instrument is sold, terminated or ceases to be effective prior to maturity, hedge accounting is ceased prospectively and any gains or losses previously recorded in accumulated other comprehensive income are recognized in earnings in the same period as those on the hedged item. When the hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, any gains or losses previously recorded in accumulated other comprehensive income are recognized immediately in other income.

Revenue recognition

Revenue from vessels, cargo and passengers using the port are recognized when services are substantially rendered. Landing fees are recognized as the airport facilities are utilized. Airport improvement fees are recognized upon the enplanement of passengers. Seasonal berthing fees and storage fees earned at the Outer Harbour Marina are recognized on a straight-line basis over the term of the agreement and any unearned portion is reflected as unearned revenue.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from these estimates.

Future accounting changes

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Port Authority will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Port Authority does not expect that the adoption of this new Section will have a material impact on its financial statements.

Toronto Port Authority

Notes to the financial statements
December 31, 2008
(In thousands of dollars)

3. Financial risk management

In the normal course of business, the Port Authority is exposed to a variety of financial risks: price risk, interest rate risk, liquidity risk and credit risk. The Port Authority's primary risk management objective is to preserve capital. Risk management strategies, as discussed below, are designed and implemented to ensure the Port Authority's risks and related exposures are consistent with its objectives and risk tolerances.

Currency risk

At year-end, there were no investments denominated in foreign currency.

Interest rate risk

Interest rate risk describes the Port Authority's exposure to changes in general level of interest rates. Interest rate risk arises when the Port Authority invests in fixed income and pooled funds which contain interest bearing investments. Interest rate changes directly impact the fair value of fixed income securities and in the fair value of the pooled funds. Interest rate changes will also have an indirect impact on the remaining investments held by the Port Authority. An analysis of maturity dates for the fixed income securities is set out below. A sensitivity analysis of the Port Authority's fixed income securities has not been presented as the Port Authority is not subject to significant interest rate risk that would impact either net income or other comprehensive loss.

Maturity	Interest rate range	2008	2007
	%	$	$
2008-2012	4.90	**361**	320
2013 and beyond	5.18	**356**	324
		717	644

- Market risk is managed by the Port Authority's investment policy which requires a diversified portfolio of allowable investments pursuant to Section 32 of the Canada Marine Act. The Port Authority does not have any financial instruments which are subject to significant market risk.

Credit risk

The Port Authority's principal financial assets are cash and cash equivalents, short term investments, accounts receivable, City settlement payments receivable, mortgages receivable and long-term investments, which are subject to credit risk. The carrying amounts of financial assets on the consolidated balance sheet represents the Port Authority's maximum credit exposure at the balance sheet date.

The Port Authority's credit risk is primarily attributable to its accounts receivables and City settlement payments receivable. The amounts disclosed in the consolidated balance sheet for accounts receivable are net of allowance for doubtful accounts, estimated by the management of the Port Authority based on previous experience and its assessment of the current economic environment. In order to reduce its risk, management has adopted credit policies that include regular review of credit limits. The credit risk related to City settlement payments receivables is considered low and is discussed further in notes 2 and 5. The credit risk on cash and cash equivalents and short term investments is limited because the counterparties are chartered banks with high credit-ratings assigned by national credit-rating agencies. The credit risk on long-term investments is limited because the bonds held are issued by provincial governments. Management monitors the credit worthiness of mortgagees on a regular basis and believes there are not issues as to the recoverability of these amounts.

(in thousands of dollars)

3. Financial risk management (continued)

Credit risk (continued)

- Liquidity risk: At year end, the Port authority did not hold any equities. The Port Authority is not exposed to significant liquidity risk related to its mortgage receivable and long-term investments. The Port authority has sufficient cash and cash equivalents to discharge its financial liabilities, and thus does not manage liquidity risk on the basis of expected maturity dates.
- Cash flow risk: The investment policy restricts the Port Authority from holding more than 20% of its investments in any one particular investment not guaranteed by the Government of Canada or of a Canadian province. Investment income is not a primary source of revenue for the Port Authority.

4. Accounts receivable

	2008	2007
	$	$
Trade accounts receivable, net of allowance for doubtful accounts	**2,746**	2,571
City of Toronto Harbour user fees (Note 18)	**3,276**	2,924
Marine Security Contribution Program receivable (Note 16)	**-**	391
Current portion of mortgage receivable	**126**	87
Deposits	**13**	13
	6,161	5,986

5. Settlement with City of Toronto

In May 2003, the Port Authority and the City of Toronto reached a settlement of then outstanding litigation (the "Settlement Agreement") that required the City to pay to the Port Authority a portion of outstanding and unpaid operating and capital payments, a stream of ongoing operating and capital payments from 2003 to 2012 and the use of certain lands in the port lands area. The Settlement Agreement also provided for certain payments of, and for the resolution of remaining disputes concerning, Harbour User Fees to be paid by the City and Payments in Lieu of Taxes ("PILTS") to be paid by the Port Authority.

As a result of disputes concerning PILTS and Harbour User Fees, the City has withheld six scheduled capital payments of $1,500 each due January 1, 2006, July 1, 2006, January 1, 2007, July 1, 2007, January 1, 2008 and July 1, 2008. In addition, the City has withheld the final installment of $1,000 in past operating and capital amounts. The total amount owing, not including interest is $10,000 as at December 31, 2008 (2007 - $7,000).

On December 23, 2008 the Port Authority filed a Notice of Action against the City of Toronto in the Ontario Superior Court of Justice for the outstanding capital and operating payments and Harbour User Fees, interest and costs. The statement of claim was subsequently filed on January 20, 2009. The amounts (exclusive of interests and costs) have been recognized as a receivable.

(in thousands of dollars)

6. Mortgages receivable and long-term investments

	2008	2007
	$	$
Mortgages receivable		
Interest at 9% maturing July 1, 2012	359	440
Interest at 8.5%, maturing October 1, 2013	211	221
	570	661
Less amounts expected to be received in one year and included in accounts receivable (Note 4)	126	87
	444	574
Long-term bond investments	717	644

Long term bond investments consist of Ontario and Canada Savings Bonds with maturity dates ranging between fiscal years ending 2012 and 2013 and interest rates ranging from 4.90% to 5.18%.

7. Capital assets

				2008	2007
	Cost	Capital funding	Accumulated amortization	Net book value	Net book value
	$	$	$	$	$
Land and capital work in progress	25,560	-	-	25,560	25,504
Buildings and structures	53,193	15,020	21,509	16,664	19,400
Plant and equipment	19,851	3,164	12,296	4,391	5,020
	98,604	18,184	33,805	46,615	49,924

Capital Funding is made up as follows:

	2008	2007
	$	$
City Funded Capital Payments (Note 5)	16,264	13,051
Airport Capital Assistance Program (Note 15)	1,143	808
Marine Security Contribution Program (Note 16)	752	988
Other Funded Capital Payments	25	-
	18,184	14,847

(in thousands of dollars)

8. Deferred dredging expenditures

Dredging expenditures incurred, for the Eastern Channel and Inner Harbour, are recorded as a deferred expenditure and were being amortized over 8 years at a rate of $80 per annum. A balance of $40 at December 31, 2008 has been reported under prepaid expenses and will be fully amortized in 2009.

9. Deferred site preparation expenditures

Deferred site preparation expenditures were incurred to prepare lands in the port-lands area for sub-tenants under a ground lease pursuant to the Settlement Agreement described in Note 5. These expenditures will be amortized over the initial term of the sub-tenant leases.

10. Employee future benefits

The Port Authority maintains a defined benefit (best five consecutive year's earnings average, up to December 31, 1999) pension plan for the benefit of most employees. The Port Authority also provides other post employment benefits to most of its employees.

Information about the Port Authority's employee future benefits in aggregate is as follows:

	Pension benefit plan December 31, 2008	**Other benefits December 31, 2008**	Pension benefit plan December 31, 2007	Other benefits December 31, 2007
	$	**$**	$	$
Accrued benefit obligation				
Balance, beginning of year	**40,155**	**1,812**	42,190	1,923
Employer current service cost	**551**	**26**	615	26
Employees' contributions	**259**	**-**	245	-
Interest cost	**2,159**	**98**	2,061	94
Benefits paid	**(2,838)**	**(136)**	(2,829)	(132)
Actuarial losses	**(5,149)**	**(201)**	(2,127)	(99)
Plan amendments	**-**	**13**	-	-
Balance, end of year	**35,137**	**1,612**	40,155	1,812
Plan assets				
Fair value, beginning of year	**44,576**	**-**	46,520	-
Actuarial return on plan assets	**(6,721)**	**-**	456	-
Employer contributions	**-**	**-**	181	-
Employees' contributions	**259**	**-**	245	-
Benefits paid	**(2,838)**	**-**	(2,826)	-
Fair value, end of year	**35,276**	**-**	44,576	-
Funded status - plan surplus (deficit)	**139**	**(1,612)**	4,421	(1,812)
Unamortized net actuarial loss	**6,087**	**(55)**	1,973	162
Unamortized past service costs	**586**	**154**	781	164
Accrued benefit asset (liability)	**6,812**	**(1,513)**	7,175	(1,486)

(in thousands of dollars)

10. Employee future benefits (continued)

The significant actuarial assumptions adopted in measuring the Port Authority's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	2008	2007
	%	%
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	**7.00**	5.50
Compensation increase	**3.00**	3.00
Benefit cost during the year		
Discount rate	**5.50**	5.00
Expected rate of return on assets	**6.00**	6.00
Compensation increase	**3.00**	3.00
Health care trend rates at end of year		
Initial rate	**8.00**	8.00
Ultimate rate	**5.00**	5.00

The Port Authority's net benefit plan expense is as follows:

	Pension benefit plan December 31, 2008	**Other benefits December 31, 2008**	Pension benefit plan December 31, 2007	Other benefits December 31, 2007
	$	**$**	$	$
Components of net benefit costs recognized during the year				
Current service cost	**551**	**26**	615	26
Interest cost	**2,159**	**98**	2,061	94
Actual return on plan assets	**6,721**	**-**	(456)	-
Actuarial (gains)	**(5,149)**	**(201)**	(2,127)	(99)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**4,282**	**(77)**	93	21
Adjustments to recognize the long-term nature of employee future benefit costs				
Difference between expected and actual return on plan assets	**(9,261)**	**-**	(1,988)	-
Difference between recognized and actual actuarial loss	**5,149**	**201**	2,376	106
Difference between amortization of past service cost and actual plan amendment cost	**195**	**23**	195	23
Employee future benefit cost recognized	**365**	**147**	676	150

(in thousands of dollars)

10. Employee future benefits (continued)

The date used to measure assets and liabilities for accounting purposes was December 31, 2008. The most recent actuarial valuation for funding purposes was July 1, 2008. The next actuarial valuation for funding purposes will be done January 1, 2010.

11. Bank loan

The Toronto Port Authority has a $15,000 credit facility with a major financial institution to finance repairs and improvements related to access to the Toronto City Centre Airport. These projects include a new ferry, repairs to the docking facilities and two new Ferry Passenger Transfer Facilities. During 2007, the Port Authority had fully drawn the $15,000 credit facility.

On January 1, 2007, $11,250 of the facility was converted to a fixed rate term. The fixed rate of 5.585% was obtained through a 15 year interest rate swap commencing on January 1, 2007, including a credit spread of 50 basis points. At December 31, 2008, the fair value of the swap was ($2,276), December 31, 2007 ($409). The difference of $1,867 is recorded as a component of Other Comprehensive Loss in the Statement of Comprehensive Loss and Equity.

The remaining $3,750 converted to a variable rate term loan on September 1, 2007. The term of the Loan is 5 years, with a 20 year amortization period. Prior to conversion, no principal was paid on this portion of the loan.

Principal payments for the next five years are as follows:

Year	Fixed	Variable	Total
	$	$	$
2009	368	188	556
2010	388	188	576
2011	408	188	596
2012	429	188	617
2013	451	188	639
Thereafter	8,522	2,547	11,069
Current portion	368	188	556
Long term	10,198	3,299	13,497

The Loan includes general security provisions and the Port Authority, at the request of the financial institution, has provided a $12,000 mortgage on a piece of property to secure the Loan.

On February 9, 2009, the Toronto Port Authority contracted with a shipbuilder in Ontario to build a second larger ferry to provide service to the Toronto City Centre Airport. The new ferry will have a capacity of 200 passengers and is needed to address increased airport activity. The new ferry is expected to cost $5 million and will be financed. Once the new ferry is delivered, the existing ferry to the Airport will become the back-up.

12. Payments in lieu of taxes

Payments in lieu of taxes or ("PILTS") are payments which may be paid by federal agencies to the municipality in which they operate, pursuant to the federal PILTS Act. The decision as to the calculation of the value upon which a PILTS payment is based and the quantum of the PILTS payment are discretionary decisions of federal bodies governed by the PILTS Act.

As part of the Settlement Agreement reached in 2003 (Note 5), the Port Authority agreed to make certain payments in lieu of taxes in respect of the lands the Port Authority owns and operates and the Port Authority and the City of Toronto agreed to use their best efforts to resolve the issues related to the magnitude of PILTS to be paid expeditiously, in accordance with the provisions contained in the PILTS Act. It was further agreed that should there be a dispute on the amount of PILTS to be paid, then until such time as the exact amount is determined, the Port Authority may postpone remittance of the disputed amount.

As per the Act, the City made application for PILTS to the Port Authority and the Port Authority provided the City with its calculation for the amount of PILTs payable (value x tax rate). The City's updated request for 1999 to 2008 is $39.588 million.

Since 2003, the Port Authority has retained Public Works Canada to review the applications and assist the Port Authority in determining amounts that the Port Authority may agree to pay. The Port Authority took the advice of Public Works Canada and then made a calculation on the amount of PILTS to pay. The amount of PILTS calculated to be appropriate by the Toronto Port Authority is similar in scale to other Canadian Port Authorities. In June 2005, the Port Authority calculated an appropriate PILTS payment for fiscal years 1999 to 2004 to be $1,892. It remitted a payment to the City in the amount of $73, representing the excess PILTS liability over the amount receivable from the City in respect of Harbour User Fees as at December 31, 2004.

As a result the City applied to the PILTS Dispute Advisory ("Panel") on April 13, 2006. The City and the Port Authority appeared before the Panel from February 25 to 28, 2008. The Panel heard evidence on valuation methods for four test properties owned and occupied by the Port Authority including Toronto City Centre Airport, that form the basis to calculate a PILTS payment. The Panel consisted of three people appointed by the federal government (Public Works). The Panel also asked for written submissions to be provided by both sides. The written submissions were compiled and sent to the Panel in April 2008. On January 5, 2009, the Dispute Advisory Panel sent their recommendations to Toronto Port Authority for the four subject properties. The Report is only advice to the Port Authority; it is not binding and does not create a debt payable by the Port Authority. The amount of PILTs the City requested on the four subject properties was $35.274 million. The TPA's calculation was $3.657 million and the amount of PILTS based on the Panel's advice is $5.063 million.

The TPA Board reviewed the Panel's advice and made a decision to accept management's recommendation on an amount of PILTS that is fair and equitable. The TPA revised the total PILTS accrual to an amount of $5,561 for the period 1999-2008, inclusive. The accrued liability as at December 31, 2008 was $5,488 ($5,561 less $73 paid in 2005).

On February 4, 2009, the City filed an Application in Federal Court for a Judicial Review of the Panel's recommendations to the TPA Board and on May 8, 2009, amended the Application for a Judicial Review of the decision of the TPA Board with respect to the amount of PILTS to pay. The Port Authority will vigorously defend its position.

(in thousands of dollars)

13. Deferred revenue

During fiscal 1988, the Commissioners sold certain hangars at the Toronto City Centre Airport. Based on the terms of the sales, the excess of the proceeds over the net book value has been deferred and is being taken into income over 46 years, being the term of the land lease on which the hangars are situated.

Deferred revenue is composed of:

	2008	2007
	$	$
Toronto City Centre Airport hangars		
Deferred gain	**1,204**	1,204
Less accumulated amortization	**593**	567
	611	637

14. Airport improvement fees

Effective October 21, 2006, the Toronto Port Authority introduced a $15.00 per passenger Airport Improvement Fee (AIF) for all enplaning commercial passengers on scheduled flights from Toronto City Centre Airport.

These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for the amount borrowed from the major financial institution (see Note 11).

For the year ended December 31, 2008, the amount of AIF collected was $3,877 (2007 - $1,983). These fees are recorded as Toronto City Centre Airport revenue in the Statement of Revenue and Expenses.

15. Airport capital assistance program (ACAP) funded capital

In 2003, Transport Canada funded capital acquisitions through the Airport Capital Assistance Program (ACAP). In 2008, Transport Canada funded $335 (2007 - $Nil) for capital acquisitions under the ACAP program.

16. Marine security contribution program (MSCP) funded capital

In 2004, 2005, 2006 and 2007, the Toronto Port Authority applied for funding under the Marine Security Contribution Program, for expenditures required to meet the International Ship and Port Security (ISPS) code at the International Marine Passenger Terminal, Marine Terminal 51 and the airport ferry passenger terminal. As of December 31, 2008, $769 of the total amount approved by Transport Canada for the Toronto Port Authority has been spent. This includes $752 for capital and $17 for operating expenditures. The Toronto Port Authority received $393 in 2005, $32 in 2006, $189 in 2007 and $155 in 2008 from Transport Canada.

17. Contingencies

(a) There are a number of outstanding claims against the Port Authority that have been reported to the Port Authority's insurers and referred to legal counsel. The Port Authority's liability is limited to the insurance deductible.

(b) In 2006, the Port Authority was made a party in three related proceedings brought by Jazz Air LP ("Jazz").

The first proceeding was commenced by Notice of Action in February 2006 in the Ontario Superior Court of Justice and names the Port Authority and others as defendants. In this action, Jazz claims damages of $10,000,000 under the Competition Act, and for conspiracy and intentional interference with economic relations, as well as punitive damages of $500,000. The action arises out of a contract entered by the Port Authority with another airline or its related affiliates which Jazz alleges a) have caused it to suspend its operations from the Airport, b) have given an effective monopoly to the other airline and c) are anticompetitive. The Statement of Claim was subsequently issued and then amended in September of 2006 and again in December 2006. Air Canada has been brought into the proceeding by counterclaim. This proceeding is ongoing.

The second proceeding was commenced in Federal Court in March 2006 and subsequently discontinued.

The third proceeding was commenced in August 2006 in Federal Court by Jazz. Initially the proceeding was a judicial review commenced as an application; however, in June 2007 the Court ordered that the matter proceed as an action. No damages are sought in the Federal Court Action. The defendants to the Federal Court action are the same as in the Superior Court action. Air Canada has been brought into the proceeding by way of counterclaim.

The Port Authority is vigorously defending each proceeding and no provision for damages has been made in these financial statements.

18. Harbour user fees

In 2000, the Port Authority set Harbour User Fees ("HUFS") for Commercial Users of the Port in accordance with the Canada Marine Act. The Port Authority charges HUFS to the City of Toronto for the use of the Inner Harbour by City ferries.

In March 2003, the Canadian Passenger Vessel Association brought a complaint to the Canadian Transportation Agency ("CTA") regarding the fees. In July 2003, the CTA ruled that the Port Authority's fee structure was not unjustly discriminatory to the tour and charter vessels. In the ruling the CTA noted that the City ferry service was a transportation necessity and the lower fee structure charged to the City was commercially acceptable.

As part of the legal settlement reached in May 2003 (Note 5) the City of Toronto agreed to pay HUFS relating to the City's operation of the ferries. The City covenanted to pay such HUFS to the Port Authority as and when due, provided, however, that the City could postpone remittance of any amount of HUFS in dispute. The total amount of HUFS charged to the City since 2000 is $3,276 and remains unpaid.

Toronto Port Authority

Notes to the financial statements
December 31, 2008
(in thousands of dollars)

19. Canada marine act and port authorities' management regulations

Pursuant to subsection 37 (3) of the Canada Marine Act, total remuneration was paid to the following:

	2008	2007
	$	$
Directors' fees		
Mr. Christopher Henley (Chair effective September 15, 2008)	16	21
Mr. Mark McQueen (Chair effective March 27, 2008, ceased to be Chair effective September 14, 2008)	16	1
Ms. Michele McCarthy, (ceased to be Chair effective March 27, 2008)	18	50
Mr. Colin Watson	16	18
Dr. Douglas Reid	14	19
Ms. Krista Scaldwell (ceased to hold office on August 1, 2007)*	3	18
Mr. Craig Rix (effective February 2, 2008)	13	-
Mr. Cameron Turner (ceased to hold office on August 22, 2007)	-	17
	96	144
Former President & CEO (January 1 to September 7, 2008)		
Ms. Lisa Raitt		
Salaries	166	185
Other benefits	16	19
	182	204
Acting President & CEO		
Mr. Alan Paul		
Salaries (January 1 to September 7, 2008, $109 as Vice President and CFO, 2007 as Vice President and CFO)	167	147
Other benefits	13	12
	180	159
Financial information pursuant to section 35 of the Port Authorities Management Regulations is as follows:		
s.35(1)(a) Wages, salaries and employee benefits	5,606	5,490
s.35(1)(b) Professional fees and fees for consulting	2,012	1,507
s.35(1)(c) Repairs and maintenance	3,039	2,843
s.35(1)(e) Realty taxes	440	347

* Ms. Scaldwell ceased to be a Director on August 1, 2007 but continued to be invited by the Board to attend and participate in Board meetings and was remunerated in accordance with the TPA Director's Remuneration Policy.

20. Commitments

The Port Authority has an agreement with the Ontario Minister of Natural Resources to complete the Leslie Street Endikement Project. Revenues generated from fees will fund the construction of certain work at the site estimated to be up to $7,800.

21. Guarantees

In the normal course of business, the Port Authority enters into agreements that meet the definition of a guarantee. The Port Authority's primary guarantees are as follows:

(a) Indemnity has been provided to all directors and or officers of the Port Authority for various items including, but not limited to, all costs to settle suits or actions due to association with the Port Authority, subject to certain restrictions. The Port Authority has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Port Authority. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) In the normal course of business, the Port Authority has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Port Authority to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Port Authority from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Port Authority has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

22. Capital disclosures

The Port Authority has certain covenants on its bank loan. As at December 31, 2008, the Port Authority was in compliance with those covenants. In addition, the Port Authority has certain external restrictions on the assets it can purchase with is deferred city capital payments. As at December 31, 2008, the Port Authority was in compliance with those restrictions.

23. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation. This has no effect on net loss or equity.